

**REPORT OF
FINANCIAL EXAMINATION**

**HENRY COUNTY MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2005**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	9
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
GENERAL COMMENTS AND/OR RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

August 10, 2006
Clinton, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir,

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

HENRY COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 325 North Second (P.O Box 92), Clinton, Missouri, telephone number (660) 885-4221.

This examination began on July 10, 2006, and was concluded on July 11, 2006, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

There were no comments or recommendations in previous examination report dated December 31, 2000.

HISTORY

General

The Company was organized and incorporated on September 22, 1891, as The Farmers Mutual Fire Insurance Company of Henry County. In July 1985, the Company changed its name to Henry County Mutual Insurance Company.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and directors are compensated \$150 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Michael Chapman 577 NE Highway AC Calhoun, Missouri	Insurance Agent	2003-2006
Stanley Egbert 1097 NE 800 Windsor, Missouri	Farmer	2004-2007
David Thornley 778 NW 1100 Blairstown, Missouri	Insurance Agent	2004-2007
Norman Sapp 862 South Highway 52 Montrose, Missouri	Police Office/Insurance Agent	2005-2008
Don Bruns 1004 South Second Clinton, Missouri	Real Estate Agent	2003-2006
Matthew Jones ¹ 600 South McLane Clinton, Missouri	Insurance Agent	2004-2007
Brian Mouse ² 1134 NW 1026 Urich, Missouri	Insurance Agent	2005-2008

¹ Appointed in 2005 to complete term of Director Michael East, who passed away in May 2005.

² Appointed in 2005 to complete term of Director Wayne Mouse, who retired in September 2005.

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Michael Chapman	President
Stanley Egbert	Vice-President
Judy Himes	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of

interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments were made to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$2,500 deductible in aggregate for each claim.

The Company carries errors and omissions coverage for its captive agents with a limit of liability of \$1,000,000 and a \$1,000 deductible. The Company's independent agent is required to carry his own errors and omissions coverage.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability and workers compensation insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees. The Company provides health insurance benefits for the

employees. The employees are allowed two weeks of paid vacation and six days of paid sick leave per year. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by seven licensed agents, four of which are directors of the Company. The agents receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. Policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents, and adjusting services are performed by the agents and independent adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$4,093,117	\$1,011,503	\$2,241,735	\$1,050,327	\$117,660	\$163,475	\$215,062
2004	4,025,064	1,138,087	1,916,050	2,539,071	66,043	81,968	141,280
2003	3,668,015	959,735	1,583,423	1,422,922	88,133	(41,263)	61,665
2002	3,419,027	738,891	1,272,359	938,463	106,475	34,804	152,089
2001	3,227,846	739,143	1,223,637	1,247,262	147,189	67,804	215,084

At year-end 2005, 4,397 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$1,223,637	\$1,272,359	\$1,583,423	\$1,916,050	\$2,241,735
Assumed	0	0	0	0	0
Ceded	<u>(525,746)</u>	<u>(250,461)</u>	<u>(450,292)</u>	<u>(571,332)</u>	<u>(690,770)</u>
Net	<u>\$697,891</u>	<u>\$1,021,898</u>	<u>\$1,133,131</u>	<u>\$1,344,718</u>	<u>\$1,550,965</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss excess with aggregate excess reinsurance agreement. The individual occurrence of loss section of the agreement covers wind and fire risks. The Company retains \$50,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates

and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2005 was \$.6077 for fire and \$.1149 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2005 was \$986,652 and the annual premium paid was \$.3932 per \$1,000 of adjusted gross fire risks in force. .

The agreement also provides for liability risk coverage. The Company cedes 100% of the risk and premium to the reinsurer and receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's independent CPAs, Daniel, Schell, Wolfe and Associates, P.C., conduct an annual audit and prepare the Company's annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any

column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2005

Bonds	\$ 890,872
Real Estate	146,099
Cash on Deposit	2,936,728
Computer Equipment	33,556
Interest Due and Accrued	19,783
Asset Write-Ins	66,079

Total Assets	\$ 4,093,117
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2005

Losses Unpaid	\$ 86,210
Ceded Reinsurance Payable	56,010
Unearned Premium	799,052
Federal Income Tax Payable	31,200
Liability Write-Ins	39,031

Total Liabilities	\$ 1,011,503

Guaranty Fund	\$ 150,000
Other Surplus	2,931,614

Total Surplus	\$ 3,081,614

Total Liabilities and Surplus	\$ 4,093,117
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STATEMENT OF INCOME
December 31, 2005

Net Premium	\$ 1,420,139
Other Insurance Income	24,793
Net Losses Incurred	(714,324)
Other Underwriting Expenses	(567,133)

Net Underwriting Income (Loss)	\$ 163,475

Investment Income	\$ 117,660
Other Income	14,927

Gross Income (Loss)	\$ 296,062
Federal Income Tax	(81,000)

Net Income (Loss)	\$ 215,062
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2005

Policyholders' Surplus, December 31, 2004	\$ 3,001,702
Net Income (Loss)	215,062
Unapplied Premium Adjustment	(135,152)
Rounding	2

Policyholders' Surplus, December 31, 2005	\$ 3,081,614
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Henry County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

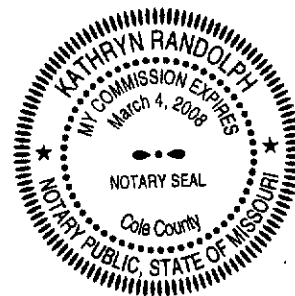

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 10th day of August, 2006.

My commission expires:


March 4, 2008


Kathryn Randolph
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance